

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Water District #1 of Midland County	County Midland County
Fiscal Year End December 31, 2005	Opinion Date March 16, 2006	Date Audit Report Submitted to State June 14, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

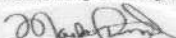
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Burnside & Lang, P.C.		Telephone Number 989-835-7721	
Street Address 5915 Eastman Avenue, Suite 100		City Midland	State MI
Zip 48640			
Authorizing CPA Signature 	Printed Name Mark R. Freed	License Number 1101012221	

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
MIDLAND COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
MIDLAND COUNTY, MICHIGAN**

**Board Members**

Village of Sanford	David L. Hartshorn, Chairman Ron Lowry, Trustee
Jerome Township	Stuart D. Bloomfield, Vice Chairman Laura Grubaugh, Trustee
Edenville Township	Alice Sharron Such, Secretary/Treasurer Craig R. Gosen, Trustee
Hope Township	Michael Kressler, Trustee Gene Smith, Trustee
Lee Township	Michael Glynn, Trustee David Yost, Trustee
Lincoln Township	Kevin Wray, Trustee Larry Hughes, Trustee

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
MIDLAND COUNTY, MICHIGAN**

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### **Independent Auditors' Report**

Members of the Water District Board  
Water District No. 1 of Midland County  
Sanford, Michigan

We have audited the accompanying financial statements of Water District No. 1 of Midland County (the "Authority"), Midland County, Michigan, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and cash flows of Water District No. 1 of Midland County, Midland County, Michigan, as of December 31, 2005, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of an forming opinion on the financial statements that collectively comprise Water District No. 1 of Midland County's basic financial statements. The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Burnside & Lang, P.C.*

Midland, Michigan

March 16, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Water District#1 of Midland County serves the townships of Edenville, Hope, Jerome, Lee, Lincoln, and the Village of Sanford.

The Water District #1 management discussion and analysis of the WD#1 financial statements includes a narrative overview and discussion of the financial activities of WD#1 for years and periods ending December 31, 2005.

The MD&A is specifically designed to: 1.) assist the reader in focusing on significant financial issues; 2.) provide a broad scope overview of WD#1's financial activities, 3.) identify and explain changes in the financial position from 2005; and 4.) highlight any individual funding source issues or concerns.

Since the MD&A is designed to present basic financial information in a narrative, executive summary format, the reader is encouraged to consider the information presented here in conjunction with WD#1's audited financial statements.

Questions concerning any of the information provided in this report or request for additional information should be addressed to Mr. David Hartshorn, Chair, Water District #1 of Midland County, PO Box 320, Sanford, MI 48657.

This MD&A is intended to serve as an introduction to the Water District's basic financial statements. Water District #1 is a special-purpose government engaged in business-type activities. Accordingly, only fund financial statements are presented as the basic financial statements, comprised of two components: (1) fund financial statements and (b) a series of notes to the financial statements. These provide information about the activities of the Water District as a whole and present a longer-term view of the Water District's finances. This report also contains other supplemental information.

### **Financial Highlights**

#### **Fund Financial Statements**

All of the funds of the Water District are reported as proprietary funds. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Water District, like other enterprises operated by state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Water District's financial statements report its net assets and changes in them. One can think of the Water District's net assets – the difference between assets and liabilities as one way to measure the Water District's financial health, or financial position. Over time, increases and decreases in the Water District's net assets are one indicator of whether its financial health is improving or deteriorating. One will need to consider other non-financial factors.

## **Using This Annual Report**

The Water District's annual report consists of financial statements that show combined information about the Water District's most significant funds.

The Water District auditors provided assurance in their independent auditors' report, located immediately preceding the MD&A, that the basic financial statements are fairly stated. The auditors provide varying degrees of assurance regarding the other information included in this report. A user of this report should read the independent auditors' report carefully to determine the level of assurance provided for each of the other parts of this report.

## **Reporting the Water District's Most Significant Funds**

The Water District's financial statements provide detailed information about the most significant funds. However, the Water District establishes other funds to help it control and manage money for particular purposes, or to show that it is meeting legal responsibilities for using grants and other money.

The statements evaluated include:

- Statement of Net Assets – reports the Water District's current financial resources (short term spendable resources) with capital assets and long-term debt obligations.
- Statement of Revenues, Expenses, and Changes in Fund Net Assets reports the Water District's operating and non-operating revenues, by major source along with operating and non-operating expenses.
- Statement of Capital Assets – reports the Water District's activities to improve and/or expand its assets and reflects current renovation efforts and accumulated depreciation.

The following analysis of the entity wide financial statement is provided to assist the reader of our financial statements.

The Water District maintains its books and records utilizing the accrual basis of accounting. Accrual accounting recognizes revenues and expenses when earned regardless of when cash is received or paid.

## Financial Analysis of the Water District

The following analysis of the entity wide financial statement is given to assist the reader of our financial statements.

Net Assets - The Water District's combined net assets increased by \$43,783 or about 5% in the reporting period ending December 31, 2005. This table describes the net assets of the Water District. Page 6 of the financial statements provides more detail.

Assets:	
Current assets	\$ 368,743
Capital assets	735,009
Total assets	<u>1,103,752</u>
Liabilities:	
Current liabilities	140,546
Long-term liabilities	96,377
Total liabilities	<u>236,923</u>
Net Assets:	
Invested in capital assets, net of related debt	629,162
Unrestricted	237,667
Total net assets	<u><u>\$ 866,829</u></u>

Changes in Net Assets – The Water District's 2005 revenues total \$699,515 and expenses total \$654,418 resulting in an increase of net assets of \$43,783. The following table shows the changes of net assets for the year ending December 31, 2005. Pages 7 and 8 of the financial statements provide more detail.

Revenues:	
Operating	\$ 699,515
Nonoperating	4,567
Total revenues	<u>704,082</u>
Expenses:	
Office	33,846
Salaries, wages and benefits	189,151
Water system operation	400,945
Other	30,477
Interest	5,880
Total expenses	<u>654,418</u>
Increase in net assets	43,783
Net assets - beginning	823,046
Net assets - ending	<u><u>\$866,829</u></u>



The Water District provides water for the municipalities of Edenville, Hope, Jerome, Lincoln, and the Village of Sanford.

A. What we have accomplished:

Restructure of water rates

Continued negotiations with the City of Midland for a new 40 year water agreement

Continual updating of water meters to radio read

### **Economic Factors**

The Water District's primarily dependent upon funds raised by water sales and projected growth. The capital budget for the 2006 fiscal year has already been approved and is in place.

The Water District's multiple year budgets have remained relatively stable. Capital Funds are intended to be used for the modernization of the system.

Significant economic factors affecting the Water District are as follows:

- Continued increase in customer base
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary and employment trends, which can affect water sales
- Income inflationary pressure on utility rates, supplies and other costs

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
MIDLAND COUNTY, MICHIGAN  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2005**

**ASSETS**

Cash and cash equivalents	\$ 298,651
Accounts receivable	21,158
Contributions receivable	6,000
Inventory	42,935
Capital assets	
Land	52,393
Buildings and improvements, net	123,007
Water system, net	524,757
Equipment, net	23,917
Vehicles, net	10,934
Total capital assets	<u>735,008</u>
Total assets	<u><u>1,103,752</u></u>

**LIABILITIES**

Lease obligation - current portion	9,469
Accounts payable - communities	94,000
Accounts payable - vendors	27,156
Accrued expenses	9,921
Lease obligation - noncurrent portion	96,377
Total Liabilities	<u><u>236,923</u></u>

**NET ASSETS**

Invested in capital assets, net of related debt	629,162
Unrestricted	237,668
Total net assets	<u><u>\$ 866,829</u></u>

The accompanying notes are an integral part of the financial statements.

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
MIDLAND COUNTY, MICHIGAN  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET ASSETS  
YEAR ENDED DECEMBER 31, 2005**

**OPERATING REVENUES**

Water sales and related penalties	\$ 574,419
Connection fees and permits	24,335
Installment and special billings	8,321
Other operating revenue	92,440
Total operating revenues	<u>699,515</u>

**OPERATING EXPENSES**

**Office**

Ground care and maintenance	1,338
Office supplies	3,335
Postage	8,390
Telephone	3,461
Utilities	3,611
Depreciation	13,256
Other office expenses	454
Total office expenses	<u>33,846</u>

**Salaries, Wages and Benefits**

Salaries and wages	148,989
Payroll taxes	11,414
Pension	2,717
Other benefit expenses	26,030
Total salaries, wages and benefits	<u>189,151</u>

**Water System Operation**

Water purchases	269,065
Distribution repair and maintenance	69,690
Electric repair and maintenance	10,677
Service connections	35,882
Maintenance supplies	1,384
Depreciation	14,246
Total water system operation	<u>400,945</u>

**Other Costs**

Legal fees	2,640
Reports and fees	542
Technical support	4,421
Vehicle repair and maintenance	3,844
Depreciation	1,822
Other expenses	4,414
Total other costs	<u>30,477</u>
Total operating expenses	<u>654,419</u>
Operating income	<u>45,096</u>

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
MIDLAND COUNTY, MICHIGAN  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET ASSETS (CONCLUDED)  
YEAR ENDED DECEMBER 31, 2005**

**NONOPERATING REVENUES (EXPENSES)**

Interest income	4,567
Interest expense	(5,880)
Total nonoperating revenue (expenses)	<u>(1,313)</u>
Change in net assets	43,783
Total net assets - beginning	<u>823,046</u>
Total net assets - ending	<u><u>\$ 866,829</u></u>

The accompanying notes are an integral part of the financial statements.

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
MIDLAND COUNTY, MICHIGAN  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2005**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 704,960
Payments to suppliers	(383,600)
Payments to employees	(186,817)
Net cash provided (used) by operating activities	<u>134,543</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Payments of excess funds	(6,000)
Net cash provided (used) by noncapital financing activities	<u>(6,000)</u>

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES**

Purchases and construction of capital assets	(4,554)
Principal paid on capital debt	(8,962)
Interest paid on capital debt	(5,880)
Net cash used by capital and related financing activities	<u>(19,396)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest and dividends	4,567
Net increase (decrease) in cash and cash equivalents	113,714
Balances-beginning of the year	184,937
Balances-end of the year	<u>\$ 298,651</u>

**Reconciliation of operating income (loss) to net cash  
provided (used) by operating activities:**

Operating income (loss)	\$ 45,096
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	29,325
Change in assets and liabilities:	
Receivables, net	5,445
Inventory	31,104
Accounts payable	15,239
Accrued expenses	2,334
Net cash provided (used) by operating activities	<u>\$ 128,543</u>

The accompanying notes are an integral part of these financial statements.

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the Authority:

**A. Reporting Entity**

Water District No. 1 of Midland County (the “Authority”) is a water authority that falls under the provisions of Public Act 233 of 1955, as amended. The Authority was established to service and collect water fees for six communities - Lincoln Township, Jerome Township, Edenville Township, Hope Township, Lee Township and the Village of Sanford. The Authority services approximately 2,700 water customers. A twelve-member board consisting of two members appointed by each community governs the Authority.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Revenues susceptible to accrual include water sales and penalties, connection fees and contributions.

The financial activities of the Authority are recorded within one fund and accounted for as an enterprise fund. Operating revenue and expenses generally result from providing water service. The principal operating revenue of the Authority is water sales to our customers. Operating expenses of the Authority include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non operating revenue and expenses.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Authority has elected to follow private-sector standards issued after November 30, 1989.

**C. Assets, Liabilities, and Net Assets**

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accounts Receivable - Accounts receivable consist of utility charges to the Authority's customers. No allowance for doubtful amounts has been included in these statements because the communities have the ability to include any unpaid accounts as a lien on the customer's property.

Inventory - Inventory is valued at the lower of cost (first-in, first-out) or market and is comprised of various water connection materials.

Capital Assets - Capital assets, which include property, water system, equipment and vehicles are reported in the statement of net assets. Capital assets are defined by the Authority as assets with an individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Generally, all of the water lines, meters, etc. located within each community are owned by that community.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	40 years
Water system	10 to 50 years
Equipment	3 to 5 years
Vehicles	5 to 10 years

Compensated Absences (Vacation and Sick Leave) - It is the Authority's policy to not let employees accumulate unused sick and vacation pay benefits; therefore, there is no liability recorded in the financial statements.

Long-Term Obligations - Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Net Assets - The Authority reports restrictions of net assets for amounts that are legally restricted for use by outside parties for use for a specific purpose.

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 2. DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in:

- a) Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States, in which the principal and interest is fully guaranteed by the United States. This subdivision shall include securities issued or guaranteed by the Government National Mortgage Association.
- b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, or a credit union which is insured by the National Credit Union Administration, that are eligible to be depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146).
- c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
- d) United States government or federal agency obligation repurchase agreements.
- e) Bankers' acceptances of United States banks.
- f) Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority's investments are in accordance with statutory authority.

The cash is deposited in local financial institutions. Cash and interest bearing deposits at December 31, 2005 are as follows:

Carrying Amount	<u>\$ 298,651</u>
Bank Balance	<u>\$ 319,742</u>
FDIC Coverage	<u>\$ 100,000</u>

Investment and Deposit Risk

**Custodial Credit Risk - Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The government does not have a deposit policy for custodial credit risk. At year end, the District had \$198,651 of bank deposits (certificates of deposit, checking and savings accounts) that were potentially uninsured and uncollateralized.



**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 3. CAPITAL ASSETS**

Capital asset activity of the Authority for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 52,393	\$ -	\$ -	\$ 52,393
Construction in progress				-
Subtotal	<u>52,393</u>			<u>52,393</u>
Capital Assets Being Depreciated				
Buildings and improvements	149,100	-	-	149,100
Water system	604,987		-	604,987
Equipment	46,964	4,554	-	51,518
Vehicles	28,023	-	-	28,023
Subtotal	<u>829,074</u>	<u>4,554</u>	<u>-</u>	<u>833,628</u>
Less Accumulated Depreciation for				
Buildings and improvements	22,365	3,728	-	26,093
Water system	65,984	14,246	-	80,230
Equipment	18,072	9,529	-	27,601
Vehicles	15,267	1,822	-	17,089
Subtotal	<u>121,688</u>	<u>29,325</u>	<u>-</u>	<u>151,013</u>
Net Capital Assets Being Depreciated	<u>707,386</u>	<u>(24,771)</u>		<u>682,615</u>
Capital Assets, Net of Depreciation	<u>\$759,779</u>	<u>\$(24,771)</u>		<u>\$735,008</u>

**NOTE 4. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and workplace injuries (workers compensation). The Authority purchases commercial insurance to cover the risks of these losses. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 5. LEASE OBLIGATION**

The Authority has entered into a lease purchase contract for \$150,000 with the Village of Sanford for the purchase of its office building. The lease is being paid in quarterly installments of \$3,710, including interest at 5.25%, and matures in 2014.

The future minimum lease payments under the capital lease and present value of the net minimum lease payments are as follows:

2006	\$ 14,842
2007	14,842
2008	14,842
2009	14,842
2010	14,842
2011 and beyond	<u>53,148</u>
Total future minimum lease payments	127,358
Less amount representing interest	<u>21,512</u>
Present value of future minimum lease payments	<u><u>\$ 105,846</u></u>

**NOTE 6. DEFERRED COMPENSATION PLAN**

The Authority offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. Internal Revenue Code Section 457(g) requires the assets of the plan to be held in trust for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of the Section 457 plan and the assets may not be diverted to any other use. The Board of Trustees has authorized an employer match of 2.2% of the participants salary. The Authority's contribution for the year ended December 31, 2005 was \$2,717.

A summary of the plan's investment activity for the year ended December 31, 2005 follows:

Balance--January 1, 2005	\$ 87,119
Contributions and transfers	11,320
Current withdrawals and transfers	(12,000)
Interest and market gains (losses)	7,118
Adjustments / fees	<u>0</u>
Balance--December 31, 2005	<u><u>\$ 93,557</u></u>

March 16, 2006

Members of the Board  
Of Trustees  
Water District No. 1  
Of Midland County

Dear Board Members:

In planning and performing our audit of the financial statements of Water District No. 1 of Midland County (the "Authority"), for the year ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

### **MANAGEMENT COMMENT**

#### **Financial Oversight**

The general limitations in any smaller municipalities such as Water District #1 requires that board members continue to remain involved in the financial affairs of the municipality through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Based on inquiries, the City Commission performs these duties and our comment here is intended to emphasize the importance of its oversight.

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the December 31, 2005, financial statements, and this report does not affect our report on those financial statements dated March 16, 2006. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Board of Trustees, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

*Burnside & Lang, P.C.*

**BURNSIDE & LANG, P.C.**